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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U338E) for Approval of Contracts Resulting from Its 2014 Energy Storage Request for Offers (ES RFO)	A.15-12-003 (Filed December 1, 2015)
Application of Pacific Gas and Electric Company for Approval of Agreements Resulting from Its 2014-2015 Energy Storage Solicitation and Related Cost Recovery (U39E)	A.15-12-004 (Filed December 1, 2015)

REPLY BRIEF OF THE ALLIANCE FOR RETAIL ENERGY MARKETS AND DIRECT ACCESS CUSTOMER COALITION

Daniel W. Douglass
DOUGLASS & LIDDELL
4766 Park Granada, Suite 209
Calabasas, California 91302
Telephone: (818) 961-3001
Email: douglass@energyattorney.com

ATTORNEYS FOR THE
ALLIANCE FOR RETAIL ENERGY MARKETS
DIRECT ACCESS CUSTOMER COALITION

Sue Mara
RTOADVISORS, L.L.C.
164 Springdale Way
Redwood City, CA 94062
Telephone: (415) 902-4108
E-mail: sue.mara@rtoadvisors.com

CONSULTANT TO
ALLIANCE FOR RETAIL ENERGY MARKETS
DIRECT ACCESS CUSTOMER COALITION

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RECOMMENDATIONS

The Commission should:

1. Find that the utilities have neither met the required burden of proof to verify that bundled storage costs are stranded nor proposed a storage-specific market price benchmark as directed by the Commission in Decision 14-10-045 and conclude that the Joint IOU Protocol is thus deficient and should be rejected.

2. Adopt the Alternate proposal submitted jointly by Community Choice Aggregation and Direct Access parties to include a Storage Adder in the calculation of the Power Charge Indifference Adjustment ("PCIA").

3. Require that the PCIA methodology adopted in this proceeding shall apply to all bundled storage procured by the utilities.

4. Limit PCIA treatment to storage used solely for the "Generation/Market" regulatory function and direct that bundled storage projects used for additional regulatory functions must have the costs properly apportioned, in accordance with the cost recovery determined for multi-use storage projects in Track 2 of Rulemaking 15-03-011.

5. Find that the consensus building goal of the PCIA workshop, as set forth in the Scoping Memo for this proceeding, requires that SCE's efforts to buttress its arguments against the Storage Adder by citations made to statements at the May 9, 2016 workshop should be disregarded.

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REPLY BRIEF OF THE ALLIANCE FOR RETAIL ENERGY MARKETS AND DIRECT ACCESS CUSTOMER COALITION

The Alliance for Retail Energy Markets ("AReM")[1] and the Direct Access Customer Coalition ("DACC")[2] submit this Reply Brief pursuant to the *Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge* ("Scoping Memo"), issued March 25, 2016, and the e-mail ruling of Administrative Law Judge Michelle Cook, issued on May 19, 2016, setting this date for filing reply briefs.

AReM and DACC focus their Reply Brief on points raised in Opening Briefs filed by parties on May 25, 2016 regarding the calculation of the Power Charge Indifference Adjustment ("PCIA") for energy storage, including the proposed Joint IOU Protocol submitted by Southern

[1] AReM is a California mutual benefit corporation formed by Electric Service Providers ("ESPs") that are active in California's Direct Access retail electric supply market. This filing represents the position of AReM, but not necessarily that of a particular member or any affiliates of its members with respect to the issues addressed herein.

[2] DACC is a regulatory advocacy group comprised of educational, governmental, commercial and industrial customers that utilize direct access for all or a portion of their electrical energy requirements. In the aggregate, DACC member companies represent over 1,900 MW of demand that is met by both direct access and bundled utility service and about 11,500 GWH of statewide annual usage.

California Edison ("SCE") and Pacific Gas and Electric Company ("PG&E")[3] and the alternate proposal submitted jointly by direct access ("DA") and Community Choice Aggregation ("CCA") parties ("CCA-DA Alternate").[4]

I. NO PARTY SUPPORTS THE JOINT IOU PROTOCOL AS PROPOSED.

No party filing Opening Briefs supported the Joint IOU Protocol as proposed. The parties representing DA and CCA parties uniformly opposed the Joint IOU Protocol as deeply flawed and non-compliant with Decision ("D.") 14-10-045.[5] The only other party[6] addressing the Joint IOU Protocol was The Utility Reform Network ("TURN"), which found the Joint IOU Protocol "preferable" to the CCA-DA Alternate, but argued that the IOUs' protocol "should be further refined" before implementation.[7]

In fact, TURN's "refinements" speak directly to the main flaw identified by DA and CCA parties in the Joint IOU Protocol – that storage assets are treated identically to "brown" power in the PCIA calculation. TURN proposes two alternatives, both of which appear to require storage-specific calculations, quite different from the no-change-is-needed approach proposed by the IOUs. One refinement would require hourly production cost modeling specific to storage[8] and the other would use on-peak forward energy prices for discharging and off-peak

[3] San Diego Gas & Electric Company (SDG&E") has been made a party to this proceeding for the purposes of the Joint IOU Protocol. See, Scoping Memo*, loc. cit.*, p. 6.

[4] *Comments of Marin Clean Energy, Sonoma Clean Power Authority, the City of Lancaster, Alliance for Retail Energy Markets, Direct Access Customer Coalition, and Shell Energy North America (U.S.) LP to the Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge* ("Joint CCA-DA Parties' Comments"), A.15-12-003 *et al*, May 2, 2016.

[5] See, for example, Opening Brief of AReM and DACC, pp. 7-8, Opening Brief of Marin Clean Energy, Sonoma Clean Power Authority, City of Lancaster, and County of Los Angeles, pp. 5-9, and Opening Brief of Shell Energy, pp. 1-2.

[6] The Opening Brief of the Office of Ratepayer Advocates did not address the proposals for calculating PCIA for energy storage.

[7] TURN's Opening Brief, pp. 2-5.

[8] TURN's Opening Brief*,* p. 3.

forward energy prices for charging to better represent the actual operation of storage assets in the market.[9] By contrast, the IOUs' "brown-power" approach uses weighted average on-peak and off-peak forward prices to capture the "value" of storage in the PCIA calculation just as it does for any old gas-fired baseload plant. Obviously, storage is used much differently in the market than most "brown" power assets. While these proposed refinements are commendable and attempt to capture how storage actually operates in the market, TURN further admits that both proposed refinements have "challenges"[10] or associated issues, such as lack of "transparency."[11]

AReM and DACC agree that TURN's refinements would represent improvements to the IOUs' proposed protocol. Nonetheless, TURN's objections highlight the flawed nature of the Joint IOU Protocol itself, which unreasonably lumps storage assets in with "brown" power in the PCIA calculation, thereby ignoring the Commission's directives in D.14-10-045 that the existing calculation was "not suited" to storage.[12]

II. THE CCA-DA ALTERNATE IS IMMEDIATELY IMPLEMENTABLE.

SCE's main arguments in opposition to the CCA-DA Alternate are that the proposal is incomplete and not immediately implementable.[13] In fact, SCE's questions on the CCA-DA Alternate, which surfaced during the May 9, 2016 PCIA workshop, were already addressed in the Opening Brief of AReM and DACC[14] and SCE's use of statements made at the workshop as purported "evidence" should be disregarded, as discussed more fully below. There is no reason,

[9] TURN's Opening Brief, p. 4.
[10] TURN's Opening Brief, pp. 3 and 4.
[11] TURN's Opening Brief, p. 3.
[12] D.14-10-045, p. 45.
[13] SCE's Opening Brief, p. 9.
[14] AReM-DACC's Opening Brief, pp. 13-14.

nor has one been provided, that the CCA-DA Alternate cannot be immediately implemented by Energy Division staff.

As described in AReM-DACC's Opening Brief, Energy Division staff would employ the same approach already used by Energy Division for the RPS Adder.[15] Staff collects the required data from the investor-owned utilities ("IOUs") to calculate the costs of the newly-acquired RPS contracts, which account for 68% of the costs included in the RPS Adder.[16] Staff can easily add to this annual task by collecting the necessary data from the IOUs on the costs of the newly-acquired energy storage contracts to calculate the Storage Adder proposed by the CCA-DA parties.[17] No party has refuted this process.

In summary, the CCA-DA Alternate builds on the existing Energy Division process and can be implemented easily and immediately. SCE's claims fail and should be disregarded.

III. ONLY THE CCA-DA ALTERNATE COMPLIES WITH D.14-10-045.

A. The CCA-DA Alternate Complies With D.14-10-045 And Properly Reflects Storage As An Emerging Market.

The CCA-DA Alternate proposes to include a Storage Adder in the PCIA calculation.[18] The Storage Adder complies with the Commission's directive in D.14-10-045 to *modify* the current PCIA calculation to address storage. Further, it properly accounts for the current emerging market for storage, in which the best current representation available of the market price for storage is the IOUs' costs of procuring it. The Joint IOU Protocol would have storage costs "stranded" on the very first day PCIA is calculated due to the IOUs' misguided "brown

[15] AReM-DACC's Opening Brief, p. 10. See also, Joint CCA-DA Parties' Workshop presentation, May 9, 2016, A.15-12-003 *et al,* Slides 7-9.

[16] AReM-DACC's Opening Brief, p. 9.

[17] Joint CCA-DA Parties' May 2 Comments, *loc. cit.*, Attachment A.

[18] Joint CCA-DA Parties' May 2 Comments, *loc. cit.*, Attachment A.

power" approach. By contrast, the CCA-DA Alternate would have no "stranded" costs on Day One. Over time, however, as storage procurement costs decline as expected, the Storage Adder will decrease and the PCIA increase, more accurately reflecting how the PCIA calculation and stranded cost recovery are intended to work for emerging resources. As the Commission itself found, PCIA for storage must be determined "against the backdrop of new and emerging technologies."[19] The CCA-DA Alternate accomplishes that task and should be adopted.

B. The Commission Should Not Reward Non-Compliance By The IOUs.

As described in AReM-DACC's Opening Brief,[20] the appropriate calculation of the PCIA for energy storage first arose in the IOUs' applications for their 2014 energy storage procurement plans filed to comply with Decision D.13-10-040.[21] AReM, DACC and other parties objected to applying the existing PCIA methodology to storage, because the existing methodology and PCIA market price benchmark ("MPB") failed to take into account the unique characteristics of storage compared to other more conventional resources. The Commission agreed with these parties in D.14-10-045, finding that the "existing market benchmark is not suited to determine the above market cost for energy storage projects."[22] Yet, the IOUs completely ignored this Commission admonition with their Joint IOU Protocol, which proposes no change to the existing PCIA calculation, thereby treating storage identically to a "brown" power resource and guaranteeing stranded costs from storage on Day One. The Commission should not reward the IOUs for their disregard for the Commission's directives and utter lack of evidence or rationale to explain their failure to modify the existing PCIA calculation to account for the emerging storage market.

[19] D.14-10-045, Finding of Fact 33, p. 110.
[20] AReM-DACC's Opening Brief, pp. 7-8.
[21] Application 14-02-006 *et al*.
[22] D.14-10-045, p. 45.

Accordingly, the Commission should reject the Joint IOU Protocol as non-compliant with D.14-10-045.

IV. OTHER PARTIES HAVE FAILED TO JUSTIFY REJECTION OF THE CCA-DA ALTERNATE.

A. PG&E's Analysis Of The RPS Adder Is Flawed.

CCA and DA parties proposed the Storage Adder as a reasonable approach for the nascent storage market and analogous to the RPS Adder adopted by the Commission in D.11-12-018.[23] However, PG&E argues that the RPS Adder is *not* analogous, because RPS contracts come with associated Renewable Energy Credits ("RECs"), which provide value to bundled customers, whereas a "storage resource brings no analogous additional value to a bundled portfolio."[24] The fact that there may be an explicit name for the incremental value of renewable generation, "RECs," does not diminish the analogy between renewable power and storage. There is an inherent cost and value difference between both renewable power and storage relative to conventional "brown" power. The fact that one can more easily point to a possible quantified incremental value for RPS-compliant power does not mean that storage has no incremental value, which is precisely the argument being made by PG&E.

In fact, much of the consideration of the RPS Adder in Rulemaking ("R.") 05-07-025 focused on how to calculate the "premium" inherent in renewable resources.[25] SCE even acknowledged that the "general consensus among the parties is that the MPB should be adjusted to reflect the 'premium' value of renewable resources included in the IOU portfolio."[26] The Commission corrected that flaw by adopting the RPS Adder in D.11-12-018. As pointed out in

[23] D.11-12-018, Ordering Paragraph 5, p. 114.
[24] PG&E's Opening Brief, pp. 25-26.
[25] See, for example, D.11-12-018, p. 16-17, 23 and Ordering Paragraph 4, p. 113.
[26] *Opening Brief of Southern California Edison Company*, R.07-05-025, May 6, 2011, p. 6.

the Opening Brief of AReM and DACC,[27] this is directly analogous to the situation with energy storage – storage has a "premium" value over "brown" power resources and the Commission should take action here to remedy the obvious flaw in the current PCIA calculation by adopting the Storage Adder proposed by the CCA-DA parties.

In addition, Shell Energy North America (US) L.P. ("Shell") offered another valuable analogy to the Storage Adder from the natural-gas side of the energy business. Shell explained that the calculation for PG&E's Core Procurement Incentive Mechanism ("CPIM") includes the full cost of gas storage in the benchmark and in the actual cost of gas procurement, which is compared against the benchmark.[28] This CPIM calculation is directly analogous to the proposed Storage Adder by the CCA-DA parties. Thus, this additional Commission precedent provides further support for the CCA-DA Alternate.

B. SCE's Double-Counting Argument Is Mistaken.

SCE argues that the CCA-DA Alternate double counts the energy and capacity value of storage, because the value of both energy and capacity "would be captured in the energy storage-specific benchmark and also in the existing Market Price Benchmark."[29] AReM and DACC disagree. First, it should be noted that in the workshop, AReM and DACC technical representatives were open to discussing ways in which any perceived double counting issues, if in fact they occur, could be addressed. While AReM and DACC do not believe that double counting is an issue in their proposal, they continue to welcome to working out any such issues with Energy Division and the utilities.

[27] AReM-DACC's Opening Brief, pp. 9-10.
[28] Shell's Opening Brief, p. 3.
[29] SCE's Opening Brief, p. 11.

C. TURN's Criticism Of The CCA-DA Alternate Misses The Point.

TURN's main criticism of the CCA-DA Alternate focuses on negative cash flows.[30] TURN misses the point. Like the RPS Adder, the Storage Adder measures stranded costs without reference to cash flows. Also like the RPS Adder, the positive and negative cash flows, if they occur, accrue solely to the bundled customers. Thus, bundled customers are treated the same with respect to both the RPS Adder and the Storage Adder. TURN has thus failed to demonstrate that the CCA-DA Alternate would be unfair to bundled customers.

V. CITATIONS TO STATEMENTS MADE IN WORKSHOPS SHOULD BE DISREGARDED.

A. Workshops Are Intended To Be Collegial Efforts Where Parties Collaborate.

A portion of SCE's Opening Brief cites quotations from the WebEx recording of the May 9, 2016 workshop on PCIA issues.[31] Longstanding Commission practice has promoted workshops as cooperative endeavors where parties meet to share ideas, proposals and exchange thoughts and concepts. Workshops are not supposed to be adversarial, yet SCE's brief would treat them in this fashion by using comments made in the spirit of cooperation and accommodation as ammunition to undercut the CCA-DA Alternate. Treating the discussion in workshops as if it were sworn testimony undercuts the free discourse that workshops are supposed to facilitate. AReM and DACC could have embarked on a similar exercise, such as citing the erroneous statements made at the workshop by a SCE representative about the origination of the RPS Adder. However, AReM and DACC believed that to do so would be highly improper and counter to the purpose for which workshops are convened.

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[30] TURN's Opening Brief, p. 2.

[31] SCE's Opening Brief, pp. 10-11. PG&E also cited the WebEx recording to support its assertions. See, PG&E's Opening Brief, pp. 25-26.

B. The Purpose Of The Workshop Was To Encourage Consensus.

SCE's attempt to use off-the-cuff statements made in good faith by DA and CCA representatives at the May 9th workshop to undercut the CCA-DA Alternate directly conflicts with the express purpose of the workshop as set forth in the Scoping Memo:

> In order to advance the discussion on these contentious topics, the parties supported the filing of comments by all parties to explicitly identify what attributes of storage should be captured in the market price benchmark (which would then become an element of the PCIA calculation) as well as a workshop following the ***comments to promote further discussion and the possibility of consensus building***.[32]

Thus, parties were directed to discuss and attempt to reach consensus on the "contentious" PCIA issue. This is appropriate and exactly as it should be. Yet, SCE has undermined that directive by using the workshop as an opportunity to score debating points rather than acting in good faith to attempt to reach the consensus the Scoping Memo clearly hoped the parties would try to achieve. Giving weight to SCE's workshop citations would set an extremely poor precedent that would likely chill participation and discussion at future Commission workshops.

In fact, the Commission has consistently encouraged parties to speak freely in workshops and seek to achieve consensus or in at least a narrowing of the issues. If parties who attend future Commission workshops have to guard every statement, refrain from offering any sort of concessions, or refuse to consider and discuss valid points made by other parties, then what purpose is served? The Commission might as well eliminate workshops as a mechanism for seeking cooperative and collaborative discussion and rely instead on adversarial, litigated proceedings.

[32] Scoping Memo, *loc. cit.*, p. 5 (emphasis added).

To avoid such adverse outcomes and continue to encourage free discourse at workshops, SCE's attempt to use statements made at the May 9th workshop to buttress its weak arguments against the Storage Adder should be disregarded.

C. The IOUs Should Not Be Rewarded For Their Intransigence.

The statements by the DA/CCA representatives cited in SCE's Opening Brief evinced an open mind, a willingness to discuss the PCIA calculation issue, and an interest in reaching consensus with the other parties. Their behavior was fully in accord with the Scoping Memo's directive to "promote further discussion and the possibility of consensus building."

The IOUs, on the other hand, have consistently pursued a "take it or leave it" approach regarding modifications to the PCIA calculation to accommodate IOU procurement of energy storage. Notably, the IOUs proposed the exact same "Joint IOU Protocol" to the CCA and DA parties in July 2015 as the one filed in December. Through two rounds of conference calls and comments from DA and CCA parties stretching to early September 2015, the IOUs steadfastly refused to consider any revisions put forth by the affected parties and have remained rigidly entrenched in their "our way or the highway" mindset that has defied the Commission's goal of achieving a collaborative resolution of the PCIA issue. In taking this approach, the IOUs violated the Commission's clear directives in D.14-10-045 requiring consultation and collaboration:

> To establish appropriate context for resolving unique energy storage ratemaking issues, ***we direct the IOUs, in consultation with affected parties to propose*** a PCIA methodology or "Joint IOU Protocol" for determining above market stranded costs of bundled service storage when they file Applications seeking approval for contracts associated with the bundled service projects.[33]
>
> ***To assure a more productive development process and to improve the filed product, it is reasonable to require the IOUs to consult with the affected ESP***

[33] D.14-10-045, p. 46 (emphasis added). See also, Ordering Paragraph 1(6), p. 119.

and CCA and potentially other interested parties ***before filing*** the Joint IOU Protocol.[34]

Surely, the Commission's requirement for "consultation" was intended to convey the need for a good-faith attempt by parties to listen to the other side and make some accommodations. The Commission should not reward the IOUs for their failure to do so.

VI. CONCLUSION

As set forth in our Opening Brief and herein, AReM and DACC respectfully request that the decision issued in this proceeding:

1. Find that the IOUs have neither met the required burden of proof to verify that bundled storage costs are stranded nor proposed a storage-specific benchmark, as directed by the Commission in D.14-10-045, and that the Joint IOU Protocol is thus deficient and should be rejected.
2. Adopt the CCA-DA Alternate, which includes a Storage Adder in the PCIA calculation, to properly address the MPB for storage in compliance with D.14-10-045.
3. Require that the PCIA methodology adopted in this proceeding shall apply to all bundled storage procured by the IOUs.
4. Limit PCIA treatment to storage used solely for the "Generation/Market" regulatory function and direct that bundled projects used for additional regulatory functions must have the costs properly apportioned, in accordance with the cost recovery determined for multi-use storage projects in Track 2 of Rulemaking 15-03-011.

[34] D.14-10-045, Conclusion of Law 25, p. 113 (emphasis added).

5. Find that the consensus building goal of the PCIA workshop, as set forth in the Scoping Memo for this proceeding, requires that SCE's efforts to buttress its arguments against the Storage Adder by citations made to statements at the May 9, 2016 workshop should be disregarded.

Respectfully submitted,

Daniel W. Douglass
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